Quarterly Economic Indicator

Scottish Chambers of Commerce Network

RESULTS: Q3 2023

in partnership with Fraser of Allander Institute

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Access the Full Report & Detailed Statistics at ScottishChambers.org.uk

Introduction

Stephen Leckie
President
Scottish Chambers of Commerce

These results indicate challenging trading conditions for firms, with inflation, interest rates, and labour shortages preventing growth and delaying investment. For too many businesses, the priority is firmly stuck on survival.

Whilst business confidence is starting to pick up from the low levels of 2022, this renewed optimism is not translating into sustained performance and output from firms necessary to get our economy firing again.

If Scotland is to maintain its competitiveness domestically and internationally, direction and impetus is needed from government north and south of the border in upcoming budget statements. These must outline clear steps to support business which instil confidence for investment and help stimulate growth.

Our data shows that firms are becoming more concerned of rises in interest rates, which are designed to suppress consumer spend and make borrowing more expensive, both of which significantly impact firms.

Looking ahead, we would urge the Bank of England to provide clarity on the future direction of interest rates or begin to allow time for the lag between rate hikes and the full effect on spending to be fully observed, so that there is less risk of causing unnecessary economic damage.

Businesses urgently require upcoming fiscal events to provide some respite for those struggling to survive and incentives for those looking to expand.

To that end, we urge the Scottish Government to use the progress made through the New Deal for Business to demonstrate that it can listen to business and take action that will support growth, such as maintaining a fair personal taxation regime, reviewing non-domestic rates, and reducing regulation.

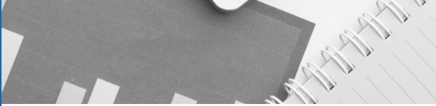
Scottish firms will be looking to the upcoming Autumn Statement for the UK Government to play its part in unlocking investment. Pro-business measures are urgently needed. For example, reinstating the reduction in VAT for hospitality and tourism, putting in place a five-year rolling guarantee on the full expensing tax allowance, and removing the 10% tax hike on Scotch Whisky now in effect as announced in the Spring Budget.

Policymakers must also do more to help businesses invest to tackle the skills crisis and, at the same time, find ways to ease sectoral labour supply pinch points, through training programmes and opening up the immigration system to plug the gaps in the workforce.

QUARTERLY ECONOMIC INDICATOR

Key Findings

Q3 2023



The Q3 2023 survey was conducted between August & September 2023. 380 firms responded to the survey.

Inflationary concerns continue to ease:

- Concern over inflation remains high among all firms but has eased generally over the quarter down to 70% from 75% in the last quarter.

- On a sectoral level, decreases in concern are being reported by the construction, manufacturing, and services sectors, although there is still at least 7 in 10 firms in each of these sectors reporting inflation as a concern. In retail and tourism, this remains a concern for at least 8 in 10 firms.

Sharp rise in concern over interest rates:

- Concern over interest rates has seen a significant increase over the quarter, rising from being reported by 37% of firms in the last quarter to now half of all firms, which is a five-year survey high.

Cost pressures remain significant, but have generally eased compared to last quarter:

- 70% reported increased cost pressures from labour costs, including salaries
- 68% reported increased cost pressures from energy costs
- 48% reported increased cost pressures from raw material prices
- 36% reported increased cost pressures from fuels such as diesel and petrol

Less firms planning to raise prices:

- Less firms are indicating that they will raise prices this quarter compared to last, following the trend over the year. Now just under half of firms (48%) say they will raise prices, which is a fall of 7% compared to last quarter, with 49% saying they will make no changes to prices.

Cashflow & profits:

- For the first time this year, more firms have reported an increase in cashflow (29%) than a fall (26%), with 44% reporting no changes to cashflow levels.

- However, the ongoing trend of more firms reporting a fall in profits (40%) than an increase (27%) has continued. 32% reported no changes to profit levels.

Investment remains frozen:

- While on balance, more firms continue to report increases in investment than falls, over half (55%) have reported no changes to total investment with this rising to 57% for training investment. These are both five-year highs for the survey.

CONSTRUCTION

Business Concerns:
Inflation and interest rates are now the joint leading concerns for 75% of construction firms, with concern over interest rates reaching a five-year survey high.

Investment:
For the first time in three years, construction firms report a contraction on balance across all investment trends, with a sizeable drop-off when compared to the previous quarter.

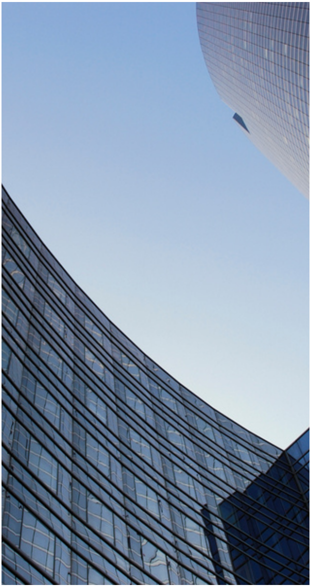
Sales Revenue:
All sales trends return positive net balances for the third quarter in a row, with all growth being around the five-year survey average.

Confidence:
Confidence continues to be positive among construction firms with 7 in 10 reporting either increased or no change to confidence. The net balance of +10% is a significant increase compared to the same quarter last year.

BUSINESS VOICE:

“House sales have dropped off due to cost of living and higher mortgage rates effecting buyers. Much higher business compliance costs with more to come due to unrealistic Scottish and UK government Net Zero targets without any tangible plans on how to achieve it. All stick and no carrot which will continue to hurt business - especially SME builders.." - Construction firm in Dundee

FINANCIAL & BUSINESS SERVICES



Business Concerns:
Inflation, interest rates, and taxation remain the leading concerns for firms. Concern from interest rates (55%) is at a five-year survey high.

Cashflow & Profits:
For the first time since Q1 2022, firms report growth on balance for both cashflow and profits in the same quarter. Both trends have seen substantial increases compared to last quarter.

Sales Revenue:
All sales trends report positive net balances for the third successive quarter this year, with increased levels of growth compared to the previous quarter.

Investment:
All investment trends also remain at positive net balances for the third quarter in a row, but notably with at least half of firms indicating no change to investment levels across all trends.

Price Raises:
The number of firms intending to raise their prices has cooled, with 44% being the lowest figure recorded for this trend since Q1 2022.

BUSINESS VOICE:

"The biggest issues are lack of available staff and the adverse impact of home working. Lack of European technical staff and home grown engineers is also a problem." - Services firm in Forth Valley

MANUFACTURING

Confidence:
After what has been a generally positive year for manufacturing firms up to this point, firms report a contraction in confidence on balance for the first time since the end of 2022.

Sales Revenue & Orders:
Firms report a mixed picture, with a continuing trend of growth in exports but contraction in domestic and rest of UK sales and orders.

Investment:
For a third successive quarter, firms report positive net balances across all investment trends. Notably, most firms (70%) indicate no changes to total and training investment.

Cashflow & Profits:
Cashflow has contracted on balance for the first time this year but remains around the Q3 average. Profits have contracted to a greater degree, with over half of firms (52%) reporting a fall over the quarter.

Cost Pressures:
The leading cost pressures continue to impact firms with raw material prices, labour and energy costs all increasing over the quarter.

BUSINESS VOICE:

"Significant cost inflation driving up our pricing to our customers. As our customers in turn push their prices to the end consumer, demand has dropped. Net effect is turnover up, volume down, profitability squeezed. While inflation may ease it is still there." - Manufacturing firm in Aberdeen & Grampian

RETAIL & WHOLESALE

Confidence:
Retail firms report a contraction in confidence on balance for the first time this year.

Sales Revenue:
After a generally positive Q2 for sales, those fortunes have reversed with contraction reported across all trends, with sizeable drop-offs in total & domestic sales.

Investment:
As been the pattern in recent surveys, firms report contraction across all investment trends, with half of firms expecting investment to fall in the next quarter.

Cost Pressures & Business Concerns:
Cost pressures remain significant but have generally eased across the board.

Concern from interest rates and taxation has both reached a five-year survey high.

BUSINESS VOICE:

"There seems to be lots of support in the media for hospitality but retail is suffering and will fall off the edge. Retail needs a stronger voice and it's not only businesses who pay business rates who need support. There are many businesses who don't pay business rates who are suffering." - Retail firm in the Scottish Borders

TOURISM

Confidence:
For the first time in two years of the survey, tourism firms report an increase in confidence on balance.

Sales Revenue:
Positive sales trends carry over from Q2, with firms reaping benefits of the last of the summer months.

This has been largely driven by growth in international visitors despite a clear softening of the domestic visitor market.

Cashflow & Profits:
Cashflow has consistently shown to be a challenge for tourism firms recently, but this quarter sees a return to growth for the first time in a year.

In contrast, profit levels continue to contract with the last growth on balance being reported in Q3 2021.

Labour Market:
The number of tourism firms actively looking to hire and recruitment difficulties has eased over the quarter but remains significant.

BUSINESS VOICE:

"The winter months are expected to be exceptionally challenging. Forward occupancy figures are down and threats of ferry cancellations add additional uncertainty. Poor infrastructure and lack of affordable housing are making it increasingly difficult to recruit permanent staff."

- Hospitality firm in the Scottish Islands

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